

Message Text

CONFIDENTIAL

PAGE 01 STATE 157524

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FM SECSTATE WASHDC

TO AMEMBASSY SANTIAGO PRIORITY

C O N F I D E N T I A L STATE 157524

EXDIS

E.O. 11652: GDS

TAGS: EIND, CI

SUBJECT: ITT

1. IN CALL ON ENDERS ON JULY 18, SAEZ AND GUILFOYLE JOINTLY PROPOSED THAT YOU FORMALLY REQUEST THAT SAEZ CONSIDER INVITING EXPERTS TO COME TO CHILE TO ASSIST IN FINDING FACTS TO DETERMINE THE AMOUNT OF CHITELCO'S BOOK VALUE AND ITT'S SHARE. DETAILS ON THE FACT-FINDING FINANCIAL EXPERTS' COMMITTEE DESCRIBED BY SAEZ ARE FOUND IN THE TEXT OF AN AGREEMENT SIGNED BY SAEZ AND GUILFOYLE ON JULY 17, 1974 (TEXT PARA 4). THE COMMITTEE WOULD FINISH ITS WORK BY THE END OF AUGUST, ACCORDING SAEZ. SAEZ SAID THAT HE WOULD NOT MAKE PUBLIC THE USG'S REQUEST. IF QUESTIONS ARISE LATER, HOWEVER, SAEZ SAID HE WOULD LIKE TO BE ABLE TO SAY THAT THE USG HAD REQUESTED THAT OUTSIDE EXPERTS BE BROUGHT IN TO FACILITATE FACT FINDING; THEREFORE, HE WOULD NOT HAVE TO REFER EARLY ON TO DISCUSSIONS WITH ITT. SAEZ SAID HE THOUGHT QUESTIONS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 157524

COULD ARISE WHEN THE COMMITTEE BEGINS ASKING CHITELCO'S

ACCOUNTING DEPARTMENT FOR DATA. ENDERS EXPRESSED AGREEMENT IN PRINCIPLE TO MAKING THE REQUEST. HE NOTED THAT THE USG HAS AN INTEREST IN FACILITATING FACT-FINDING .

2. YOU SHOULD CALL ON SAEZ AT AN EARLY CONVENIENT TIME, AND DELIVER THE FOLLOWING AIDE MEMOIRE. BEGIN TEXT. THE GOVERNMENT OF THE UNITED STATES IS GRATIFIED AT THE

PROGRESS WHICH HAS BEEN MADE IN THE SETTLEMENT OF CLAIMS WITH UNITED STATES CITIZENS AND COMPANIES. IN THIS REGARD, THE GOVERNMENT OF THE UNITED STATES BELIEVES THAT CLARIFICATION OF THE FACTS PERTINENT TO THE AMOUNT OF THE INVESTMENT OF INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION, SUD AMERICA, IN THE CHILEAN TELEPHONE COMPANY WOULD CONTRIBUTE TO THE EVENTUAL SETTLEMENT OF THE CLAIM OF INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION, SUD AMERICA, AGAINST THE GOVERNMENT OF CHILE. THE GOVERNMENT OF THE UNITED STATES REQUESTS THAT THE GOVERNMENT OF CHILE CONSIDER INVITING APPROPRIATE CHILEAN AND FOREIGN EXPERTS TO ASSIST IN CLARIFYING SUCH FACTS. END TEXT

3. YOU SHOULD REAFFIRM WITH SAEZ THAT (A) HE DOES NOT INTEND TO ANNOUNCE PUBLICLY THE CONTENTS OF THE AIDE MEMOIRE, AND (B) ANY NECESSARY FUTURE PUBLIC REFERENCES TO THE USG'S REQUEST WOULD SAY THAT THE EXTENT OF THE REQUEST WAS THAT OUTSIDE EXPERTS BE INVITED TO CHILE TO FACILITATE THE GOC'S EFFORTS TO CLARIFY THE FACTS PERTINENT TO THE AMOUNT OF ITT'S INVESTMENT IN CHITELCO.

4. BEGIN TEXT (DATED JULY 17, 1974)

THE FOLLOWING WILL BRIEFLY OUTLINE THE DISCUSSIONS HELD BETWEEN THE UNDERSIGNED ON JULY 16TH AND 17TH, 1974.

1) BOTH PARTIES REPRESENTING THEIR RESPECTIVE POINTS OF VIEW AGREE THAT IT IS IN THEIR MUTUAL BEST INTEREST TO ARRIVE AT A FAIR AND REASONABLE SOLUTION WITH RESPECT TO THE MATTER OF THE CHILEAN TELEPHONE COMPANY.

2) WE HAVE MUTUALLY AGREED TO USE THE DATE OF SEPTEMBER 30, 1971 TO BUILD UP THE BASIC FIGURES TO DETERMINE THE VALUE OF THE INTEREST OF ITT IN THE CHILE TELEPHONE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 157524

COMPANY. A COMMITTEE OF FINANCIAL EXPERTS WILL BE FORMED BY THE GOVERNMENT AND ITT TO DEVELOP THESE BASIC FIGURES. THE COMMITTEE WILL INCLUDE TWO REPRESENTATIVES FOR THE GOVERNMENT OF CHILE, TWO REPRESENTATIVES TO BE APPOINTED

BY ITT AND REPRESENTATIVES OF THE FIRM OF PRICE WATERHOUSE PEAT. IN ADDITION, THE NEGOTIATORS FOR THE GOVERNMENT OF CHILE AND ITT WILL EACH APPOINT A PERSONAL REPRESENTATIVE

TO WORK WITH THE COMMITTEE.

3) STARTING WITH AUDITED FINANCIAL STATEMENTS OF THE CHILE TELEPHONE COMPANY AS AT DECEMBER 31, 1976 AND UTILIZING THE AUDITED FINANCIAL STATEMENTS OF THE CHILE TELEPHONE COMPANY FOR THE YEARS 1968 AND 1970 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1971, THE COMMITTEE WILL BUILD UP THE BOOK VALUE OF THE CHILE TELEPHONE COMPANY AS OF SEPTEMBER 30, 1971 (AND THE PROPORTIONATE PART THEREOF REPRESENTING

ITT'S INTEREST) AS WELL AS THE VALUE OF THE "NET INVESTMENT" OF ITT IN THE CHILE TELEPHONE COMPANY AS THAT TERM IS USED IN THE AGREEMENT BETWEEN THE GOVERNMENT OF CHILE AND THE CHILE TELEPHONE COMPANY DATED OCTOBER 6,

1967. IN ITS DETERMINATION RELATING TO THE BOOK VALUE OF ITT'S INVESTMENT IN THE CHILE TELEPHONE COMPANY, THE COMMITTEE SHALL DETERMINE:

(A) THE VALUE OF ITT'S EQUITY, (GIVING EFFECT, ON A PRO FORMA BASIS, TO THE ACQUISITION BY CORFO OF ADDITIONAL SHARES IN THE CHILE TELEPHONE COMPANY PURSUANT TO THE TERMS OF AN AGREEMENT BETWEEN THE CHILE TELEPHONE COMPANY AND THE GOVERNMENT OF CHILE DATED OCTOBER 6, 1967).

(B) THE AMOUNT OF PRINCIPAL AND INTEREST OWED BY THE CHILE TELEPHONE COMPANY AS OF SEPTEMBER 30, 1971 TO ITT SUD AMERICA PURSUANT TO A LOAN AGREEMENT BETWEEN THOSE ENTITIES DATED NOVEMBER 2, 1966 AND,

(C) AMOUNTS PAYABLE TO ITT, ITS SUBSIDIARIES AND AFFILIATES AS OF SEPTEMBER 30, 1971.

4) IN ORDER TO REACH A RAPID SOLUTION, THE PARTIES ANTICIPATE THAT THE DELIBERATIONS OF THE COMMISSION WILL CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 157524

IN ALL PROBABILITY BE CONCLUDED BY AUGUST 31, 1974.

5) IT IS FURTHER UNDERSTOOD THAT THE AMOUNT AND TERMS OF PAYMENT WILL BE NEGOTIATED AS SOON AS POSSIBLE THEREAFTER BY THE PARTIES CONSISTENT WITH PRESENT AND FUTURE UNDERSTANDING. IT IS ANTICIPATED THAT THE GOVERNMENT OF CHILE WILL ACQUIRE THE SHARES OF THE CHILE TELEPHONE COMPANY PRESENTLY HELD BY ITT. PROVISION WILL ALSO BE MADE FOR ALL OTHER ITEMS MENTIONED IN PARAGRAPH 3.

6) AS PART OF AN OVERALL COMPLETE AGREEMENT IT IS EXPECTED THAT ITT WOULD AGREE TO MAKE REASONABLE REINVESTMENT IN CHILE IN FIELDS TO BE DETERMINED AFTER MUTUAL CONSULTATION.

SIGNED: RAUL SAEZ, FOR THE GOVERNMENT OF CHILE; JOHN W

GUILFOYLE, FOR INTERNATIONAL TEL. AND TEL. CORP.
INGERSOLL

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NNN

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